

~~SECRET~~

CIA HISTORICAL REVIEW PROGRAM  
RELEASE IN FULL 1998

5106

16 November 1964

THE SOVIET ECONOMY TODAY

Brezhnev and Konygin face the same fundamental economic problems that Khrushchev with his vigorous gambles was unable to solve. The Soviet economy today is overcommitted. Growth rates have slowed down. Economic administration is muddled. And the populace continues to grumble about the lack of housing, the poor quality of consumer soft goods and durables, and the general underfulfillment of utopian promises. A recent favorable development is the good harvest which has stanchied the outflow of gold; also favorable is the availability of long-term credits for the import of much-needed machinery from the West and Japan.

Overcommitment. With an economy half the size of the US economy, the Soviet leadership is attempting to match the US pace in the arms race. The rate of growth of total Soviet military expenditures has slowed down in 1963-64 compared to 1959-62, but the continued expansion of military R & D efforts and the introduction of new missile systems is intensifying the pressure on the limited supplies of high-quality manpower, materials, and equipment. At the same time, the leadership must raise substantially the rate of growth in investment if industrial capacity is to be modernized and former rates of growth in output restored. The key "chemicalization" program, which calls for vastly increased capacity in fertilizers, plastics, and man-made fibers, already appears to be dragging because of failure to complete plants on schedule and of surprisingly small imports of new plant

~~SECRET~~

# SECRET

and technology from the West -- only about \$200 million in contracts to date in 1964. Besides defense and industry, agriculture too is a lusty claimant for additional resources, e.g., for a new irrigation program and for the fertilizer program. <sup>The new regime</sup> -- to judge from its delphic statements that efforts will be made to maintain military strength, modernize industry, and raise standards of living -- is in no mood to slash commitments, although neither is it likely to pile new commitments on old in Khrushchevian fashion.

Slowing down. Whereas the over-all annual rate of advance of Soviet GNP in the 1950's was 6-7 percent, in the 1960's it is running 4-5 percent. The abnormally low rates for 1962-63 -- averaging about 2½ percent -- were caused largely by failures in agriculture. In 1964, in contrast, agricultural production has bounced back and GNP growth for this single year may be above 6 percent, a performance unlikely to be repeated in 1965. (See the accompanying chart.) However, the steady slowdown in the growth of industrial production continues, even by the admission of Soviet statistics. Our figures, which normally run about 2 percentage points below the official Soviet index, show the following annual average growth rates in industrial production:


|           |    |  |
|-----------|----|--|
| 1956-1959 | -- | 8½%                                    |
| 1960-1962 | -- | 7%                                     |
| 1963      | -- | 6%                                     |
| 1964      | -- | 5% (projection based on 9 months data) |

Last year in announcing revised industrial plans for 1964-65, the Soviet leadership tacitly conceded that growth in 1964 would be slowed because of the reshuffling necessary for the "chemicalization" program,

~~SECRET~~

but the higher rates of growth scheduled for 1965 reflected a belief that industrial production would subsequently spring back to a level consistent with the Seven-Year Plan (1959-65). Some moderate improvement is indeed possible in 1965 with respect to industrial growth.

Muddled economic administration. One dubious legacy of Khrushchev to the new regime is a complicated and confused structure of economic administration. Khrushchev's reorganizations of both Party and state lines of control came in such rapid-fire order that the measures could only be half digested. We suspect, for example, that the bifurcation of regional and local Party organizations -- into a section to control industry and a section to control agriculture -- has never really taken hold and may be an immediate object of reform by the new regime. Already the new leadership has authorized the extension of an experiment in decentralized management to one-third of the garment and footwear plants; this experiment permits the individual factory and retail trade organization to make contracts covering quantity, style, assortment, specifications, and, to a limited extent, price of goods. In August and September of this year a series of articles in Pravda revived and widened the Liberman proposals of 1962; Professor Ye. G. Liberman of Khar'kov had proposed that "profitability" (rate of profit on fixed plus working capital) be introduced as a major factor in evaluating industrial enterprises. The new leadership is confronted with these and other proposals to "decentralize" and/or "rationalize" the management of the economy. Experimentation is continuing, but no basic changes can be



~~SECRET~~

~~SECRET~~

expected for the time being. The quick decision of the new leadership to relax restrictions on private agricultural plots is very popular politically and very sensible economically, but is not representative of the leadership's generally temporizing approach to problems of economic administration. Brezhnev has promised to reform economic management "with circumspection and without fuss and haste."

Consumer grumbles. The Soviet consumer made solid gains under Khrushchev. The deposed leader, however, had unduly whetted consumer appetites by blue-sky promises such as in 1957 when he promised to catch up to US per capita output of meat, milk, and butter "in the near future." Housing and textiles are other areas where promises have far outstripped performance; for instance, housing construction has declined since 1959, and the original Seven-Year Plan (1959-65) for housing is likely to be underfulfilled by at least 15 percent. Further promised, but inflationary, welfare measures have been delayed: for example, additional reductions in the workweek, increases in minimum wages, and abolition of the income tax. Even with these restrictions, increases in money incomes will continue to exceed increases in the supplies of consumer goods. The new leaders inherit the expansive promises of Khrushchev and already have dutifully paid homage to the necessity of raising living standards. If as expected, they continue the same general programs and policies for the time being, we can expect little to happen that will allay consumer grumbles.

Reduction of gold outflow. In 1963/64 the USSR was forced to import about 11 million MT of wheat and flour from the West at a cost of approximately

~~SECRET~~

~~SECRET~~

\$800 million. The Soviet gold stock has dropped from about \$2.2 billion at the end of 1962 to about \$1.4 billion today. The grain harvest in 1964 is good -- about 125 million MT compared to 95 million MT in 1963 -- and substantial imports of grain are no longer needed. Long-term credits from Western Europe and Japan of several hundred million dollars are now available for financing imports of machinery needed to modernize Soviet industry; use of these credits, however, has been surprisingly slow so far. As for additional favorable developments, Soviet exports are slowly increasing, and higher commitments and drawings in the Soviet economic aid program are being increasingly offset by a growing volume of repayments. Thus, the general picture in Soviet foreign trade and in the balance of payments suggest that large exports of gold beyond domestic production are at an end, at least for the time being.

Summing up. The Soviet economy today has impressive strengths -- rapidly growing heavy industry and military and space successes -- and glaring weaknesses -- neglect of the consumer, a ponderous managerial system which is ill-adapted to the complex demands of a modern economy, and, most important of all, a slowing down of growth in the face of expanding commitments. The new Soviet leaders, assuming they continue in office, are likely to approach these problems in a less ebullient fashion than Khrushchev. Such a change of style may work better, especially if dogmatism can be kept in check.

~~SECRET~~

~~SECRET~~

DATA FOR THE CHART  
(Percent)

|                             | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 | 1963 | 1964 |
|-----------------------------|------|------|------|------|------|------|------|------|------|
| Gross National Product      | 8.3  | 4.9  | 9.2  | 4.0  | 4.9  | 6.7  | 3.3  | 1.7  | 6.5  |
| Industrial Production       | 8.6  | 8.6  | 8.6  | 8.5  | 7.3  | 6.9  | 7.0  | 5.8  | 5.0  |
| Net Agricultural Production | 11.7 | -0.1 | 10.3 | -4.1 | 0.5  | 8.6  | -1.2 | -5.1 | 10.0 |

~~SECRET~~